AUXLY CANNABIS GROUP INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2021

Dated May 27, 2021

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") was prepared as of May 27, 2021 unless otherwise indicated. This MD&A reviews the operating results, financial position and liquidity of Auxly Cannabis Group Inc. ("**Auxly**", "**we**", "**our**", or the "**Company**"). All amounts are stated in millions of Canadian dollars unless otherwise noted, except common shares ("**Shares**"), options, and per Share amounts. This MD&A should be read in conjunction with the interim condensed consolidated financial statements and the notes thereto for the three months ended March 31, 2021, as well as the Company's audited consolidated financial statements and accompanying notes thereto and annual MD&A for the year ended December 31, 2020.

This MD&A may contain forward-looking information that is based on the Company's expectations, estimates and projections regarding its business and the economic environment in which it operates. Forward-looking information contained herein is made as of the date of this MD&A and is not a guarantee of future performance and involves risks and uncertainties that are difficult to control or predict. Readers should refer to the "*Forward Looking Statements*" section in this MD&A.

DESCRIPTION OF BUSINESS

Our Business

We are a leading Canadian consumer packaged goods company in the cannabis products market, headquartered in Toronto, Canada. Our focus is on developing, manufacturing and distributing branded cannabis products that delight wellness and recreational consumers.

Our vision is to be a global leader in branded cannabis products that deliver on our consumer promise of quality, safety and efficacy.

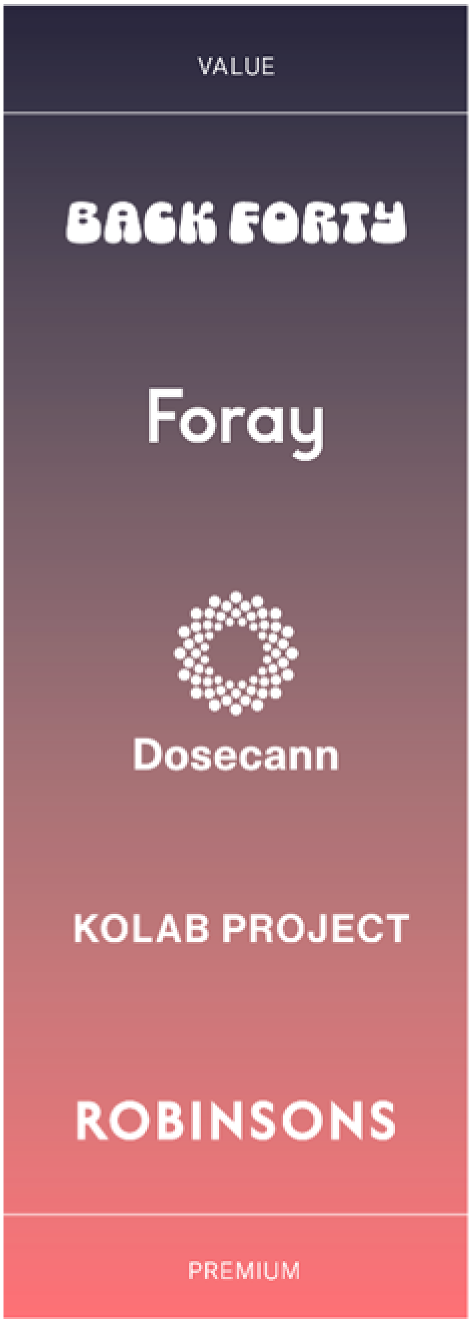
Canadian Market

On October 17, 2018, the Cannabis Act came into force, initially permitting the recreational sale of certain classes of cannabis products, including dried cannabis, fresh cannabis, cannabis plants, cannabis seeds, and cannabis oil (collectively referred to as "**Cannabis 1.0 Products**"). On October 17, 2019, edible cannabis, cannabis extracts and cannabis topicals were added to the authorized classes of cannabis (collectively referred to as "**Cannabis 2.0 Products**", and together with Cannabis 1.0 Products, collectively referred to as "**Cannabis Products**") and such Cannabis 2.0 Products were first available for sale on December 16, 2019. Since 2019, Health Canada undertook a consultation, established a Scientific Advisory Committee, and has been engaged in discussions regarding the possible legalization of Cannabis Health Products ("**CHPs**"), which would permit the making of health claims in respect of cannabis products without the required oversight of a practitioner such as a doctor. Auxly submitted a response to the consultation, is actively participating in those discussions with Health Canada and is looking forward to the possibility that the authorized classes of cannabis will expand to include CHPs and other derivative product formats ("**Cannabis 3.0 Products**").

Canadian Strategy and Capabilities

Brand Portfolio and Product Offering

We have created a portfolio of brands designed for a broad market of cannabis consumers, with differentiation in price points across targeted consumer segments.



Back Forty. *Take a trip and explore the Back Forty.*

Back Forty requires no introduction because it already feels familiar, with a product suite that fits seamlessly into the day-to-day with the simple purpose of providing a better experience for less.

Foray. *See cannabis differently.*

Foray is an accessible entry point for anybody, at any stage of their cannabis journey. Designed for the curious, Foray is approachable and wants to celebrate and guide one's foray into cannabis.

Dosecann. *Cannabis – down to a science.*

Dosecann is a world-class developer of innovative cannabis products for the wellness-focused consumer. Built on the pillars of quality, safety and efficacy.

Kolab Project. *Embrace the unexpected.*

Kolab Project is dedicated to supporting and celebrating the intersection of cannabis and culture. The Kolab Project mission is to provide cannabis enthusiasts with a carefully curated selection of exceptional cannabis, accessories and experiences.

Robinsons. *Canada's premier producer of fine-crafted cannabis.*

Nestled in the heart of Nova Scotia's Annapolis Valley, Robinsons cultivates fine cannabis. Always small-batch and hand-tended, Robinsons is grown for and best enjoyed by the discerning consumer. Driven by an unwavering commitment to craft and relentless pursuit of growing the best cannabis — cannabis that is known simply as Robinsons.

Based upon consumer insights, Auxly has developed a broad portfolio of Cannabis Products to meet the evolving needs and preferences of Canadian cannabis consumers. We have focused on the development of Cannabis 2.0 Products and were one of the first cannabis companies to distribute and sell Cannabis 2.0 Products across Canada starting in mid-December 2019.

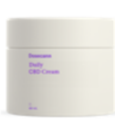
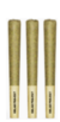
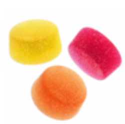
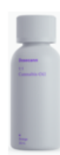
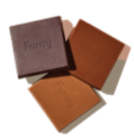
We were the top-selling licensed producer of Cannabis 2.0 Products nationally in 2020 and continue to have a strong market share in 2021.

Our Cannabis Products available during the first quarter of 2021 are described below by brand and product format:

Products Available by Brand				
KOLAB PROJECT	Dosecann Cannabis Solutions	BACK FORTY	ROBINSONS	Foray
Chocolates Vape cartridge starter packs 510 Vape cartridges All-in-one vape pens Pre-rolled cannabis Dried Flower Concentrates	Cannabis oil drops Capsules	510 Vape cartridges Dried Flower	Dried Flower	Soft Chews Chocolates Vape cartridge starter packs 510 Vape cartridges All-in-one vape pens Hard Candy

Our Cannabis Products have been well received by consumers. We plan to further strengthen our brand recognition and use consumer insights to drive innovation as we continue to introduce new Cannabis Products to the Canadian market, with an emphasis on expanding our dried flower and pre-roll offerings in 2021.

April 2021 → December 2021

						
Dosecann Daily Relief CBD Cream is a high-quality, high-potency cream that uses a tested formula to deliver CBD while hydrating the skin.	Back Forty and Kolab Project's launch of format disruptive, unique, high potency and strain-specific pre-rolls.	Back Forty's strain-specific and high THC potency dried flower offering and further expanding Kolab Project Grower Series collaborations.	Launching new and exciting chocolate and chew flavour profiles in our edible product category under Foray, Back Forty and Kolab Project.	Dosecann CBD AhiFlower oil, a high-potency CBD extract blend infused with omega-rich Ahiflower Oil and a built-in dropper that delivers 2.5 mg of CBD over 4 drops.	New innovative seasonal chocolates and chews for consumers to enjoy and celebrate special occasions.	New distinct vape flavour profiles and formats including premium, live terpene carts containing flavourful terp sauce, developed using flash-frozen, single-strain flower.

Distribution

Given the current provincial legislative framework in Canada, we have pursued a multifaceted strategy to gain access to Canadian consumers. This includes supply arrangements with provincial control boards and retailers, including our partnership with Medical Cannabis by Shoppers Drug Mart Inc., a brokerage agreement with Kindred Partners Inc. ("**Kindred**") to act as our strategic sales agent, and strong relationships with all major retailers.

We have secured listings and sold our Cannabis Products in all provinces except Quebec (where the regulations for Cannabis 2.0 Products are more restrictive). We have obtained the necessary pre-authorization to enter into public contracts in Quebec and continue to explore listings for certain products that comply with Quebec's regulatory requirements.

Cannabis Operations, Product R&D and Manufacturing

<u>Dosecann</u>

In May of 2018, we acquired our subsidiary Dosecann LD Inc. ("**Dosecann**"), and its purpose-built, GMP-compliant cannabis processing facility located in Charlottetown, Prince Edward Island. The Company conducts its primary extraction, product development, manufacturing and R&D activities for its Cannabis Products in-house at the Dosecann facility. Dosecann holds licences for processing, analytical testing and research under the Cannabis Act. The majority of the first floor of the two-story, 52,000 square foot facility is currently licenced under the Cannabis Regulations for the production, storage and sale of Cannabis Products. As of May 12, 2020, Health Canada streamlined its site expansion process whereby licence holders are no longer required to submit certain amendments for approval by Health Canada. This reduces the regulatory burden for site expansion and increases Health Canada's capacity to review applications that must be submitted. Under the revised site expansion process, Dosecann will not be required to seek further Health Canada approval for operational areas on the second floor of the facility, but any additional secure storage areas will require a formal licence amendment submission and approval. Construction of the interior of the second floor of the Dosecann facility is complete. During the third quarter of 2020, operational activities began to transition from the first to second floor with chews, capsules and hard candy production being moved to the newly constructed second floor, and vapes and oils remaining in production on the first floor. With the additional space and equipment at the Dosecann facility to produce products at commercial scale, combined with the continued development of automation and on-going efforts to reduce the cost of input materials and packaging, we anticipate that improvements in gross margins will be achieved.

Product development is led by Dosecann's team, who have experience in the pharmaceutical, food, scientific research and product development fields. As the Company's manufacturing hub, the Dosecann facility provides the Company with the ability to be responsive to changing industry regulation and evolving consumer preferences. On June 25, 2020, Dosecann was granted a research licence from Health Canada pursuant to the Cannabis Act, which permits Dosecann to administer cannabis extracts, edible cannabis and cannabis topicals to human subjects for purposes of palatability and sensory testing. With the research licence, Dosecann can conduct broader in-house testing, incorporating consumer input and feedback on attributes such as flavour, aroma, texture or mouthfeel, to better evaluate later-stage product formulations. Product development is overseen by our safety board, comprised of members from Auxly, Dosecann, KGK Science Inc. ("**KGK**") and Imperial Brands PLC ("**Imperial Brands**"), which has oversight of the controls in place to ensure the safety, quality and efficacy of the Company's products.

Following the completion of construction at the Dosecann facility in 2020, the Company is undertaking new expenditures of approximately $2.5 to $4.0 million comprised of several pieces of automation equipment across several product categories, expansion of extraction capabilities and throughput and security enhancements within the next 6 months, and a further $1.3 million in March of 2022. As at March 31, 2021, expenditures of approximately $1.1 million have been made towards the completion of this project.

Kolab Project

In October 2017, we acquired our subsidiary Kolab Project Inc. ("**Kolab**") and its facility located just outside of Ottawa in Carleton Place, Ontario. Kolab holds licences for cultivation and processing under the Cannabis Act. In 2020, we made the strategic decision to cease cultivation at the Kolab facility and shift our focus to the manufacturing, processing and distribution of pre-roll and dried flower Cannabis Products. In addition to its current operations, Kolab provides the Company with the flexibility to manufacture, produce and distribute other Cannabis Products as necessary. Kolab's curated Growers Series has included successful product launch collaborations with Lotus Cannabis Co., Safari Flower Co. and Robinsons. These Kolab Project collaborations strive to deliver a curated selection of unique strains to cannabis enthusiasts across the country while transparently showcasing the craftsmanship of talented cultivators of incredible cannabis by acknowledging the cultivator on our packaging.

Near the end of 2020, the Company undertook a new capital project, at an estimated cost of $5.5 - $6.5 million, to increase pre-roll production volumes at Kolab through the purchase, installation and commissioning of automated manufacturing and packaging equipment and minor associated building alterations, which is expected to quintuple output from the facility. The manufacturing equipment will be installed and commissioned during the second quarter of 2021, with packaging automation expected to occur during the third quarter of 2021. As at March 31, 2021, expenditures of approximately $1.8 million have been made towards the completion of this project.

KGK Science

KGK, the Company's wholly owned contract research organization located in London, Ontario, provides regulatory, research and clinical trial services to the nutraceutical, natural health product and cannabis industries. KGK has an active research licence allowing for the possession and administration of cannabis for the purposes of a clinical trial. On September 22, 2020, KGK received its second research licence, which permits KGK to conduct product palatability and sensory testing of cannabis extracts, edible cannabis topicals with human subjects. On December 21, 2020, KGK received an Institutional Cannabis Research Licence from Health Canada which provides the broad approval to conduct multiple cannabis research projects, removing the need to obtain individual Research Licences for each project. KGK works with its clients in substantiating claims for their products through randomized clinical trials in addition to providing other research and regulatory services such as participant recruitment, regulatory compliance solutions, research support services and consulting. On May 27, 2021, the Company announced that it had reached an agreement to sell KGK to Myconic Capital Corp., see *"Recent Developments: First Quarter 2021 To Date – Auxly Reaches an Agreement to Sell KGK Science"* in this MD&A.

Curative Cannabis

On November 27, 2019, Auxly accepted certain share collateral of 2368523 Ontario Inc. (d/b/a Curative Cannabis) ("**Curative**") in satisfaction of secured debt obligations owing to Auxly by Curative pursuant to an Order of the Ontario Superior Court of Justice (Commercial List) made in foreclosure proceedings under the *Ontario Personal Property Security Act*, RSO 1990. As a result, the Company holds a 96% share interest in Curative. Curative's assets include an approximately 30,000 square foot cannabis cultivation facility situated on 33 acres of land in Chatham-Kent, Ontario. Curative currently holds licences for cultivation and processing under the Cannabis Act. To date, the Company has contributed approximately $20.4 million towards the construction and development of the Curative facility. The Company is currently exploring all possible options with respect to the use, commercialization and/or sale of the asset. No further material expenditures are required by the Company at this time, but if and when the Company decides to begin active operations at the Curative facility, the Company estimates additional capital expenditures of approximately $0.9 million would be required to finish the facility for the purpose of cannabis cultivation; however, such expenditures may increase depending on the Company's final intended use of the facility.

Cultivation Supply

We have established a diversified supply chain that provides a secure and cost-efficient source of raw cannabis, comprised of a combination of a wholly owned subsidiary, a joint venture and offtake agreements. Having a flexible cultivation platform allows for a consistent source of raw input material for the manufacture of our Cannabis Products. To meet our commercial objectives for Cannabis Product sales while the Company's joint venture project Sunens Farms Inc. ("**Sunens**") was under development, we opportunistically purchased, by value, approximately 81% of our cannabis inventory (dried cannabis and resin) in the open market during 2020 and 89% during the first quarter of 2021. The majority of the Company's current CBD inventory was purchased from licenced hemp sellers in Prince Edward Island prior to 2021.

A summary of our key cultivation sources is below:

<u>Sunens</u>

Sunens is the Company's large-scale joint venture with partner Peter Quiring, which is comprised of a 1.1 million square foot greenhouse in Leamington, Ontario.

Funding for the project budget was provided by the Company in the form of an equity contribution and a subordinated promissory note totaling approximately $98.5 million provided prior to 2020, and a $84 million secured facility underwritten by a syndicate of lenders led by the Bank of Montreal ("**BMO**"). The Company's contribution along with the credit facility comprise all the required expenditures for the entire 1.1 million square foot facility. As part of such financing provided by the syndicate led by BMO, the Company has guaranteed payments up to $33 million in the event of default. As at March 31, 2021, approximately $78.5 million of the facility had been drawn.

In June of 2020, Sunens received a standard cultivation licence from Health Canada for approximately 360,000 square feet of cultivation, processing and storage space. The Company determined the most expedited licensing pathway for the remaining space would be achieved by submitting two additional licensing amendment applications for Health Canada's approval to expand the site perimeter for the remaining cultivation and additional processing and storage space in the facility. The first of these two licensing amendments was submitted and approved, granting Sunens the use of an additional 409,684 square feet of cultivation and storage space. The Company is currently evaluating the site perimeter expansion that would be necessary to meet Sunens' requirements for additional processing and storage space, and anticipates the second licensing amendment application to expand the site perimeter will be submitted in the second half of 2021. In order to provide further commercial flexibility, Sunens also applied for a processing licence, which was issued by Health Canada on November 13, 2020. Sunens commenced cultivation within the licenced area upon receiving its licence in June 2020, and began selling products to the Company and other licenced producers in the first quarter of 2021.

On November 2, 2020, in connection with an amendment to the off-take agreement between the Company and Sunens to provide the Company with more favourable pricing, the Company amended its subordinated promissory note with Sunens so that all interest accrued to date was waived by the Company and interest on the principal amount of the promissory note will not start to accrue until January 1, 2023.

On February 8, 2021, at the request of the lending syndicate, the Company and its joint venture partner contributed $2 million in the aggregate to provide additional cash reserves to support operating cash flows (with the Company proportionately contributing $0.9 million of such amount). In addition, revenue milestones of $3.45 million and $7.15 million for the first and second quarters, respectively, of 2021 (the "**Revenue Milestones Requirement**") were established.

On April 16, 2021, Sunens received a notice of default from BMO in its capacity as lender, administrative agent and syndication agent under the credit facility with respect to Sunens' failure to satisfy the Revenue Milestones Requirement. Although the lenders have reserved their rights under the credit agreement, they advanced another $1 million in April 2021 pursuant to a borrowing request made pursuant to the credit facility and BMO granted a one-month payment holiday and term extension of the equipment loan payment due in May 2021 in the amount of approximately $0.2 million which was used to fund day-to-day operations. In addition, Sunens may require additional funding for working capital until production and revenue from sales reach expected levels. In May 2021, the Company has begun further supporting Sunens through purchases of cannabis as production from the Sunens facility increases. Discussions with the lenders with respect to a formal credit amendment and/or forbearance agreement are continuing although there can be no assurance that an agreement with the lenders will be reached. The lenders have retained an accounting firm to provide them advice with respect to the credit facility in the form of a report expected to be completed in the next two months.

Subject to reaching an acceptable accommodation with the lenders, the joint venture partners are considering additional costs to optimize the processing and storage capabilities of the Sunens facility which may be funded by the joint venture partners and/or lenders, however, a reasonable estimate of any such costs is not determinable at this time. The Company anticipates that it will transition Sunens to become one of its primary suppliers of cannabis inventory over the course of 2021.

<u>Robinsons</u>

Robinsons Cannabis Incorporated (“**Robinsons**”) holds licences for cultivation and processing under the Cannabis Act for its purpose-built 27,700 square foot indoor cannabis cultivation facility located in Kentville, Nova Scotia, and is focused on the production of high-quality craft cannabis. Following the completion of the facility in 2019, initial shipments of Robinsons dried cannabis products commenced in July 2020. Robinsons has entered into supply arrangements with Alberta, Ontario, Nova Scotia, Newfoundland and Labrador, and Saskatchewan. The Company is undertaking minor facility upgrades at a cost of approximately $0.5 million to accommodate equipment and related commissioning expenses, as part of a plan of continuous improvement to improve overall facility efficiency and increase product yields. The equipment is expected to arrive and be operational in the third quarter of 2021 and as at March 31, 2021, expenditures of approximately $0.1 million have been made towards the completion of this project.

Robinsons OG

Robinsons Outdoor Grow Incorporated ("**Robinsons OG**") is a large-scale outdoor cannabis cultivation project comprised of over 158 acres of land located in Hortonville, Nova Scotia. The Company anticipates that the long-term supply of outdoor cannabis to be produced on site at Robinsons OG will be used for product development initiatives at Dosecann and to create Robinsons-branded derivative cannabis products. Robinsons OG holds standard cultivation and processing licences under the Cannabis Act from Health Canada. However, given the timing for the optimal outdoor planting season and the operational challenges posed by the COVID-19 pandemic, the Company has made the strategic decision to delay the commencement of cultivation activities at the Robinsons OG site and instead focus its efforts on the continued development of the Robinsons OG land and facility in preparation for whenever the Company determines should be the next cultivation season. To date, the Company has contributed approximately $11.4 million towards the construction and development of the Robinsons OG project and anticipates a further $3.5 million in capital expenditures will be required to complete the Robinsons OG project prior to any cultivation, which is not planned to begin in the 2021 season. The facility is currently being used for additional storage and processing capacity for the Company to manage its dried flower inventory.

PEI Hemp

We acted as the financial sponsor for the development of a hemp farming co-operative through which 300 acres of hemp was cultivated in Prince Edward Island by six individual hemp licence holders, which resulted in approximately 98,000 kg of hemp biomass from the 2019 cultivation season. Dosecann secured the right of first refusal to offtake the biomass produced in 2019 at preferential prices. The biomass available for purchase was subject to final inspection and validation of a minimum cannabinoid content and quality specifications to ensure extraction efficiency. Based upon the negotiated pricing and the Company's sponsorship of the project to date, the Company has purchased (after inspection and validation) approximately 55,000 kilograms of hemp biomass for $6.2 million. The purchase price of $6.2 million was previously provided to the hemp farmers as a loan to commence the project. During the fourth quarter of 2020, an additional 14,300 kilograms of hemp biomass was purchased for $2.0 million. All parties have since agreed to terminate and mutually release each other from any further purchases under such arrangement. The Company intends to use the biomass to extract CBD for use in its own products or for the sale of CBD distillate to other regulated industry participants.

Strategic Partners

Imperial Brands

Through our strategic partnership with Imperial Brands, Auxly was granted global licenses to Imperial Brands' vaping technology for cannabis uses, and access to its vapour innovation business, Nerudia, and Imperial Brands will use Auxly as its exclusive partner for the future development, manufacture, commercialization, sale and distribution of cannabis products of any kind anywhere in the world. Auxly has elected to its board of directors one out of five director nominees and one non-voting observer, each designated by Imperial Brands, and in addition Imperial Brands' Group Science and Regulatory Affairs Director sits on Auxly's Safety Board. Auxly will continue to leverage the expertise of these Imperial Brands representatives to improve its corporate and product stewardship governance practices.

Capsugel

Capsugel Inc. (“**Capsugel**”), a subsidiary of Lonza Group Ltd. (“**Lonza**”), designs, develops and manufactures a wide range of innovative dosage forms for the biopharmaceutical and consumer health & nutrition industries. Capsugel provided Dosecann with a complete line of equipment for capsule filling and sealing, including a state-of-the-art LEMS® machine, Lonza’s proprietary liquid-filled Capsugel® Licaps® capsules and rights to its capsule filling and sealing LEMS® technology. Dosecann and Lonza will also work collaboratively on new product formulations for cannabis capsule products.

Natures Crops

Natures Crops International (“**Natures Crops**”) is a vertically integrated grower and manufacturer of plant-based specialty oils. Pursuant to a supply agreement with Natures Crops, Dosecann holds an exclusive global licence for the use of omega-rich Ahiflower® seed oil in all Cannabis Products sold in any dosage form, including oils, capsules, soft gels and any other pill format. The Company recently announced the launch of its first Ahiflower® seed oil based Cannabis Product, the Dosecann CBD+Ahiflower Oil Capsules, which are sealed in Lonza’s Licaps® Capsugel® capsules, and will continue to develop new products utilizing Licaps® capsules, Ahiflower® seed oil, cannabis and other ingredients to serve consumer needs in the medical and wellness markets.

dosist™

In June of 2020, Dosecann entered into an agreement with GSW Creative Corporation Canada Inc., doing business as dosist™ (“**dosist**”) to manufacture dosist’s proprietary vape devices at the Dosecann facility. The Company utilizes its production capabilities and expertise to manufacture and distribute dosist’s vape products.

International Operations

Presently the Company does not have any active international operations.

Given the slower than anticipated pace of cannabis-specific regulatory development in Latin America (“**LATAM**”) and, consequently, the slower development of viable near-term commercial channels in the region, the Company has chosen to explore strategic alternatives for Inverell S.A. (“**Inverell**”), the Company’s 80% owned subsidiary located in Montevideo, Uruguay. While exploring strategic alternatives, including the sale of the asset, the Company ceased all operations at Inverell effective the third quarter of 2020.

OUTLOOK

In 2021, we are focused on building upon our success as a market leader in Cannabis 2.0 Products, while continuing to advance the Company’s focused expansion of its dried flower, pre-roll, oil and capsule product offerings. Our overall objectives for 2021, which may be impacted by the COVID-19 pandemic (see further discussion in this MD&A under “*COVID-19 Pandemic*”), are as follows:

- Continued leadership and strength in the Cannabis 2.0 Products market;
- Focused expansion of Cannabis 1.0 Products;
- Continue to take measures to improve cash flows and finance the business;
- Leverage the Sunens facility to establish a secure supply of cannabis and reduce reliance on open market purchasing; and

- Explore possible cannabis market entry strategies in regulated international markets, on an asset light basis.

We will continue to evaluate opportunities to bring new and exciting products to consumers as we continue to realize our vision of becoming a global leader in branded cannabis products that deliver on our consumer promise of quality, safety and efficacy.

COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization recognized the outbreak of COVID-19 as a pandemic, which has had a profound impact on the global economy. The pandemic has been a rapidly changing situation throughout the year and into 2021, and the provincial and territorial responses to the pandemic continue to evolve as Canada is currently experiencing a third wave of COVID-19 cases. Initially, during the early stages of the pandemic, certain provincial and territorial governments imposed various degrees of temporary lockdown measures forcing non-essential businesses to close, including retail cannabis stores in some jurisdictions, while certain other jurisdictions allowed retail cannabis stores to remain open with certain operational limitations and protocols in place.

Although the original provincial lockdown measures were eventually eased in most areas, there has been a recent trend of stricter lockdown measures being imposed again across various jurisdictions given the rapid increase in COVID-19 cases across the country. On April 3, 2021, all regions in Ontario moved into a third lockdown, and on April 8, 2021 Ontario declared a state of emergency and a provincewide stay-at-home order went into effect as a public health measure, with additional lockdown measures and travel restrictions announced by the government on April 16, 2021. Under the stay-at-home order all non-essential businesses, including retail cannabis stores, will remain closed for in-store sales for at least eight weeks, however, retail cannabis stores are permitted to remain open for curbside pickup and delivery. As of the date of this MD&A, the majority of retail cannabis stores across the rest of Canada remain open with pandemic protocols in place, but there is a possibility that further lockdown measures could be imposed or extended given the recent increase in COVID-19 cases across provinces and territories which may have a negative impact on the Company's sales, cash flows and results of operations.

In response to the pandemic, the Company implemented safety measures to protect employees and consumers which comply with all federal and provincial regulations and guidelines while keeping our facilities operating. The Dosecann, Kolab and Robinsons facilities remained open and operational on extended shifts with few instances of employee absenteeism or self isolation, and certain operational changes have been made to best address the safety of our employees and consumers. Employees at the Company’s corporate head office in Toronto and other non-production staff at our cannabis facilities have been operating under a work from home model. The impact of COVID-19 on cannabis operations was largely limited to premium pay for hourly employees, and temporary supply chain disruptions during the first two quarters of 2020 and increased freight charges for much of the year, that were not material.

Two of the Company’s facilities, Dosecann and Robinsons, are located in PEI and Nova Scotia, respectively. The Atlantic provinces (Nova Scotia, PEI, New Brunswick and Newfoundland) have had stricter COVID-19 measures in place than the rest of the country, restricting travel from other provinces within Canada and requiring any visitors to a province in the region to complete a 2-week quarantine upon arrival. This policy has been very successful so far in keeping COVID-19 case counts low across the Atlantic region, however it is possible that further lockdown measures could still be imposed. Partially as a result of the low case count in the Atlantic region, following the second quarter of 2020, the Company was able to roll back premium pay for hourly employees and has also seen a reduction in freight costs to near pre-pandemic levels. However, given the continued uncertainties associated with the COVID-19 pandemic, including disruptions to the global and local economies due to related lockdown orders, quarantine policies and restrictions on travel, trade and business operations and a reduction in discretionary consumer spending, we are unable to estimate the impact of the COVID-19 pandemic on our business, financial condition, results of operations, and/or cash flows.

Additionally, due to required social distancing measures KGK was initially unable to commence new clinical trials with participants (which makes up a significant portion of its business), but has since shifted to a virtual process allowing it to facilitate new clinical trials. Further, certain aspects of clinical trial work were deemed an essential service and were therefore completed by third parties. In March 2020, KGK temporarily laid-off approximately 50 employees as it transitioned through the new operating model.

In relation to the COVID-19 pandemic, the Company accessed the Canada Emergency Wage Subsidy in 2020 for wages for employees at its subsidiaries KGK and Kolab. Otherwise, the Company is not relying on any other government financing programs to provide liquidity support.

RECENT DEVELOPMENTS: First Quarter 2021 To Date

Auxly Reaches an Agreement to Sell KGK Science

On May 27, 2021 the Company announced that it had entered into a definitive agreement with Myconic Capital Corp. (“**Myconic**”), pursuant to which Myconic will acquire all of the issued and outstanding shares of KGK (the “**Transaction**”) for up to $16.5 million in value comprised of:

- $12.5 million purchase price from Myconic in the form of:
    - $1.5 million in cash payable on the closing date of the Transaction;
    - $1.0 million in cash payable six months after the closing date of the Transaction; and
    - $10.0 million in common shares in the capital of Myconic (“**Myconic Shares**”) at a price per Myconic Share of $1.55 (being 6,451,612 Myconic Shares) all to be issued on the closing date of the Transaction, with equal tranches becoming freely tradeable on the four, six, nine and 12 month anniversaries of the closing date of the Transaction;
- $1.5 million milestone payment, payable in cash or Myconic Shares, at the option of Myconic, if KGK achieves gross revenues of $8 million in any 12-month period during the two years following the closing date of the Transaction; and
- $2.5 million credit against future KGK services, reflected in a 10-year service agreement between Auxly and KGK.

The Transaction is expected to close on or around the week of June 7, 2021 and is subject to customary closing conditions and regulatory approvals, including the approval of the NEO Exchange.

Auxly Announces $8.0 Million Private Placement

On May 20, 2021, the Company announced the closing of its previously announced private placement offering of units to an institutional investor for gross proceeds of approximately $8.0 million. Pursuant to the offering, the Company issued 23,880,597 units of the Company at a price of $0.335 per unit. ATB Capital Markets Inc. acted as exclusive agent on the offering. Each unit is comprised of one Share and one-half of one Share purchase warrant, with each whole warrant entitling the investor to purchase one Share at a price of $0.42 per Share at any time up to 36 months from closing of the offering. The Company originally announced the private placement offering on May 13, 2021.

Auxly Appoints First Chief People Officer

On May 5, 2021, the Company announced that it had hired Andrea Fraser as Chief People Officer. In this new role, Ms. Fraser will lead all aspects of the Company’s human resources, including crafting talent acquisition strategies, promoting inclusion in the workplace and further developing and evaluating career paths to meet the Company’s business goals.

Dosecann Launches Industry-Leading, High-Potency Topical: Dosecann Daily Relief CBD Cream

On May 3, 2021, the Company announced the launch of its Dosecann Daily Relief CBD Cream, a new, high-strength, differentiated cannabis topical cream for Canadian wellness consumers. The Dosecann Daily CBD Cream was developed by the team of scientists, researchers and formulation experts at Auxly’s state-of-the-art laboratory in Charlottetown, PEI, under the direction of Dr. Bob Chapman, Chief Science Officer at Dosecann.

Imperial Brands PLC Extends Convertible Debenture Maturity and Defers Interest

On April 19, 2021, the Company announced an agreement with its strategic partner Imperial Brands to amend certain provisions of its previously issued $123 million debenture (the “**Debenture**”) and investor rights agreement (the “**Investor Rights Agreement**”) dated September 25, 2019 (collectively, the “**Amendments**”).

Pursuant to the Amendments, Imperial Brands and Auxly have agreed to extend the maturity date of the Debenture by 24 months from September 25, 2022 to September 25, 2024. The Amendments will also provide Imperial Brands with the right, on an annual basis, to convert any or all of the accrued and unpaid interest on the Debenture then outstanding into Shares (the “**Interest Conversion Election**”), at a conversion price equal to the five-day volume weighted average trading price of the Shares on the date that Interest Conversion Election is made. Auxly and Imperial Brands have also agreed that the interest rate under the Debenture, which currently accrues at a rate of 4% per annum and is payable annually, will remain unchanged but will be payable on maturity of the Debenture. The Debentures are convertible into Shares at a price of $0.81 per Share at any time prior to the close of business on the business day immediately preceding maturity. Lastly, the Amendments provide for the re-instatement of certain approval rights of Imperial Brands under the Investor Rights Agreement.

The implementation of the Amendments is subject to the satisfaction of a number of conditions, including, among other things, the approval of the TSX Venture Exchange, and minority shareholder approval of the Amendments in accordance with Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions*.

Auxly Graduates to the Toronto Stock Exchange (“TSX”)

On April 16, 2021, the Company announced that it had received final approval from the TSX to graduate from the TSX Venture Exchange (“**TSXV**”) and list its Shares on the TSX.

The Shares commenced trading on the TSX at market open on Tuesday, April 20, 2021 under its existing symbol “XLY”. In connection with listing on the TSX, the last day of trading on the TSXV was April 19, 2021 and the Shares were delisted from the TSXV upon commencement of trading on the TSX. The Shares continue to trade on the OTCQX market under the symbol “CBWTF.”

Kolab Project Launches First Cannabis Concentrate with 232 Series Diamonds

On March 24, 2021, Kolab Project announced that its first concentrate offering, Kolab Project 232 Series Diamonds, was available to order for provincial wholesalers. 232 Series Diamonds are single-strain concentrates extracted from fresh, flash-frozen cannabis flower. The first release is produced with Ice Cream Cake, a popular strain launched as part of the Kolab Project Growers Series in partnership with Safari Flower Co. In true Kolab Project fashion, 232 Series Diamonds are available in recyclable and resealable light-proof jars, and biodegradable packaging.

Auxly Announces At-the-Market Equity Program

On March 23, 2021, the Company announced the establishment of an at-the-market equity program (the "**ATM Program**") that allows the Company to issue and sell up to $30,000,000 of Shares from the treasury to the public, from time to time, at the Company's discretion. The volume and timing of distributions under the ATM Program, if any, will be determined at the sole discretion of the Company. Distribution of the Shares under the ATM Program will be made pursuant to the terms of an equity distribution agreement between the Company and ATB Capital Markets (the "**Agent**"). The ATM Program will be effective until the earlier of the issuance and sale of all of the Shares issuable pursuant to the ATM Program and the date on which the receipt issued for the Company's base shelf prospectus dated March 18, 2021 (the "**Base Shelf Prospectus**") ceases to be effective in accordance with Canadian securities laws, unless terminated prior to such date by the Company or the Agent. As Shares sold in the ATM Program will be issued and sold at the prevailing market price at the time of the sale, prices may vary among purchasers during the period of distribution. The offering under the ATM Program will be made pursuant to a prospectus supplement to the Base Shelf Prospectus dated March 23, 2021. As of the date of this MD&A, the Company has not issued any Shares pursuant to the ATM Program.

Auxly Announces Strategic Expansion into Cannabis 1.0

On February 18, 2021, the Company announced its strategic expansion into Canada's largest cannabis segment, the dried-flower market. Auxly's expansion into Cannabis 1.0 will consist of a three-pronged strategy:

1) Expanding its flower offering under the Kolab Project Growers Series through the launch of new cultivars with existing partners and securing new partnerships with top-tier cultivators;
2) Launching a strain-specific dried flower offering of unique genetics at a compelling price point under Auxly's Back Forty brand; and
3) Significantly boosting its pre-roll capacity through custom-built automation and launching disruptive pre-roll products under its Kolab Project and Back Forty brands.

Auxly Announces Closing of $20 Million Bought-Deal Public Offering, Including Full Exercise of the Over-Allotment Option

On February 8, 2021, the Company announced the closing of a bought deal short form prospectus offering pursuant to which the Company sold a total of 54,395,000 units of the Company at a price of $0.37 per unit for gross proceeds to the Company of $20,126,150, which included the full exercise of the over-allotment option granted to the underwriters. Each unit consisted of one Share and one-half of one Share purchase warrant, with each whole warrant entitling the holder thereof to purchase one Share at a price of $0.46 per Share at any time until February 8, 2024. The Company originally announced the bought deal offering on January 20, 2021, and on January 21, 2021, the Company announced that it had entered into a revised agreement with ATB Capital Markets Inc. and Cantor Fitzgerald Canada Corporation, together with a syndicate of underwriters, to increase the size of the previously announced bought deal short form prospectus offering for aggregate gross proceeds of $17,501,000 from $15,003,500.

Auxly in Top Spot for 2.0 Products

On January 19, 2021, the Company announced that it had achieved the #1 market share position in Canada for Cannabis 2.0 Products in 2020, as confirmed by Headset Canadian Insights Data. Despite not participating in every 2.0 category, Auxly's 19.2% share of the total vape market and 12% share of the total edibles market, propelled the Company to the #1 spot in overall Cannabis 2.0 Products sales for the year.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

For the three months ended: (000's)		**March 31, 2021**		March 31, 2020		Change	Change
Total net revenues	**$**	**10,008**	$	9,905	$	103	1%
Net loss*	**$**	**(10,494)**	$	(12,744)	$	2,250	18%
Adjusted EBITDA**	**$**	**(6,872)**	$	(8,335)	$	1,463	18%
Weighed average shares outstanding		**714,041,130**		625,242,335		88,798,795	14%

*Attributable to shareholders of the Company

**Adjusted EBITDA is a Non-IFRS financial measure. Refer to the Non-IFRS Financial and Performance Measures section in this MD&A for definitions

As at: (000's)		**March 31, 2021**		December 31, 2020		Change	Change
Cash and equivalents	**$**	**20,431**	$	21,214	$	(783)	-4%
Total assets	**$**	**389,258**	$	378,963	$	10,295	3%
Debt	**$**	**117,911**	$	114,825	$	3,086	3%

For the three months ended March 31, 2021, net revenues were $10.0 million, resulting in a slight increase over the same period of 2020.

Net losses attributable to shareholders decreased by $2.3 million to $10.5 million in 2021 when compared to 2020.

Adjusted EBITDA improved by $1.5 million or 18% to negative $6.9 million for the first quarter of 2021 primarily as a result of reductions in selling, general, and administrative expenses during the quarter.

Cash and equivalents were $20.4 million as at March 31, 2021 a decrease of $0.8 million from December 31, 2020. Net cash reductions were primarily associated with negative cash from operating and investing activities, partially offset by proceeds from investing activities which include the February 2021 prospectus offering.

For the period ending March 31, 2021 the average number of Shares outstanding increased to 714.0 million Shares, an increase of 88.8 million Shares or 14% over 2020 primarily as a result of the prospectus offerings in December 2020 and in February 2021.

RESULTS OF OPERATIONS

For the three months ended: (000's)		March 31 2021		March 31 2020
Revenue				
Revenue from sales of cannabis products	**$**	**12,152**	$	10,467
Research contracts and other		**842**		901
Excise taxes		**(2,986)**		(1,463)
Total net revenue		**10,008**		9,905
Costs of sales				
Costs of finished cannabis inventory sold		**6,848**		5,091
Research contracts and other		**850**		548
Inventory (gain)/impairment		**230**		1,274
Gross profit excluding fair value items		**2,080**		2,992
Unrealized fair value gain/(loss) on biological transformation		**255**		(51)
Realized fair value gain/(loss) on inventory		**1**		(180)
Gross profit		**2,336**		2,761
Expenses				
Selling, general, and administrative expenses		**9,388**		14,018
Depreciation and amortization		**2,533**		2,374
Interest expense		**4,608**		2,199
Total expenses		**16,529**		18,591
Other income/(loss)				
Fair value gain/(loss) for financial instruments accounted under FVTPL		**116**		(115)
Interest and other income		**416**		61
Gain/(loss) on settlement of assets and liabilities and other expenses		**4,069**		1,834
Share of gain/(loss) on investment in joint venture		**(459)**		(785)
Foreign exchange gain/(loss)		**(488)**		1,644
Total other incomes/(losses)		**3,654**		2,639
Net loss before income tax		**(10,539)**		(13,191)
Income tax recovery		**39**		-
Net loss	**$**	**(10,500)**	$	(13,191)
Net loss attributable to shareholders of the Company	**$**	**(10,494)**	$	(12,744)
Net loss attributable to non-controlling interest	**$**	**(6)**	$	(447)
Adjusted EBITDA	**$**	**(6,872)**	$	(8,335)
Net loss per common share (basic and diluted)	**$**	**(0.01)**	$	(0.02)
Weighted average shares outstanding (basic and diluted)		**714,041,130**		625,242,335

Revenue

For the three months ended March 31, 2021, cannabis revenues were $12.2 million as compared to $10.5 million in the same period in 2020. Net cannabis revenues of $9.2 million during the period, were comprised of approximately 80% Cannabis 2.0 Products sales, with the remainder from Cannabis 1.0 Product sales. During the first quarter of 2021, Auxly maintained strong retail cannabis sales nationally. While Auxly's cannabis revenues were impacted by additional volatility as a result of changes to its provincial customers' inventory management practices and the increase in restrictions during the third wave of the COVID-19 pandemic, the Company was able to maintain leading market share positions for retail cannabis sales.

Research and other revenues of $0.8 million for 2021 were $0.1 million lower than 2020 primarily as a result of the COVID-19 pandemic and its disruptive impact on the completion of clinical trials and the achievement of revenue milestones connected to such clinical trials. Revenues in support of third-party research contracts can fluctuate significantly during the term of the contract based upon the achievement of milestones. Where milestones are not met, revenues are deferred on the balance sheet which may result in timing differences in earnings.

Gross Profit / Loss

Auxly realized a gross profit of $2.3 million to March 31, 2021, compared to a gross profit of $2.8 million in 2020. Cannabis gross profits for the period ended March 31, 2021 were $2.3 million, resulting in a 26% margin (25% before impairment and fair value adjustments), with research and other gross profits of $nil. Inventory impairment of $0.2 million was recognized in 2021, as compared to a $1.3 million loss during the same period of 2020 associated with Inverell's operations.

Total Expenses

Selling, general and administrative expenses ("**SG&A**") are comprised of wages and benefits, office and administrative, professional fees, business developments, share-based payments, and selling expenses. For 2021, SG&A expenses were $9.4 million, a decrease of $4.6 million from the first quarter of 2020.

Wages and benefits were $4.3 million, a decrease of $2.2 million over the same period in 2020. The decrease of $2.2 million was primarily driven by workforce reductions and employee wage subsidies at KGK of $0.7 million, $0.4 million a result of expenditures associated with Inverell in 2020, and savings and absorption changes in the remaining operations of approximately $1.1 million.

Office and administrative expenses of $3.1 million in 2021 increased by $0.5 million compared to 2020 primarily a result of increased operating costs associated with the development and sale of Cannabis Products in 2021, partially offset by savings of $0.3 million associated with operations at Inverell in 2020.

Auxly's professional fees for the three months ended March 31, 2021 were $0.5 million, lower by $1.0 million as compared to 2020. Professional fees incurred during the periods primarily related to accounting fees, regulatory matters, reporting issuer fees, and fees associated with financing activities. Professional fees can vary significantly based upon transactional activities from period to period.

Business development expenses were $Nil as compared to $0.8 million in 2020. The decrease is primarily due to a reduction in acquisition, development and travel related expenses primarily a result of the on-going COVID-19 pandemic.

Selling expenses for the period ended March 31, 2021 were $1.3 million, consistent with the same period in 2020 and were directly attributable to cannabis sales activities comprised of brokerage fees earned by Kindred Partners and marketing initiatives for Cannabis Products.

For 2021, share-based compensation was $0.2 million as compared to $1.4 million in 2020. The reduction in expenses in 2021 reflects the impact of significantly fewer option grants to date, the impact of lower share prices and fewer outstanding options.

Depreciation and amortization expenses were $2.5 million in the first three months of 2021, as compared to $2.4 million during the same period in 2020. The increase in expense is primarily a result of additional capital expenditures during the past 12 months.

Interest expenses were $4.6 million for the three months ended March 31, 2021 and $2.2 million for the same period of 2020. Interest expenses in 2021 were primarily the result of interest expense and accretion on the $123 million, 4% Imperial Brands convertible debenture, 7.5% on the convertible debenture issued in 2020, the non-cash accretion of placement and other related fees being recognized over the terms of the respective debentures, leases and short-term financing. Interest expenses in 2020 were primarily driven by the Imperial Brands convertible debenture and by leases.

Total Other Incomes and Losses

Fair value changes on financial instruments arise on changes in value of promissory notes and level two securities held. For the period ended March 31, 2021, the Company reported a fair value gain of $0.1 million, as compared to a loss of $0.1 million in 2020.

The Company recorded interest and other incomes of $0.4 million in the first quarter of 2021, increasing from $0.1 million in 2020, primarily related to interest accretion on the Sunens promissory note.

Gains on settlement of assets and liabilities and other expenses were $4.1 million, primarily relating to a $4.2 million gain on the settlement of a $5.8 million liability associated with a non-monetary product exchange with another licensed producer. Gains were $1.8 million in 2020, primarily relating to a gain on non-monetary inventory transfers with another licensed producer, net of a credit loss provision of $0.6 million.

The share of loss on investment in joint venture of $0.5 million in the first three months of 2021, decreased by $0.3 million as compared to the first three months of 2020 reflecting the Company's proportionate share of Sunens' earnings. Sunens received its cultivation licence in June 2020 and has scaled up operations and made product available for sale to other licenced producers in the first quarter of 2021.

Auxly is exposed to foreign exchange fluctuations from the U.S. dollar to CAD dollar exchange rate primarily related to inventory and capital purchases and Inverell net assets. During the quarter ended March 31, 2021, the Company reported a foreign exchange loss of $0.5 million compared to a gain of $1.6 million in the same period in 2020.

Net Losses

Net losses were $10.5 million with a net loss of $0.01 per share on a basic and diluted basis during the quarter ended March 31, 2021, and $13.2 million with a net loss of $0.02 per share on a basic and diluted basis in the same period in 2020. The improvement of $2.7 million in 2021 was primarily the result of reductions in total expenses and total other gains.

Adjusted EBITDA

Adjusted EBITDA of negative $6.9 million, improved by approximately $1.4 million over the same period in 2020. The increase was primarily driven by lower SG&A excluding non-cash share-based compensation.

SUMMARY OF QUARTERLY RESULTS

The following table summarizes comparative quarterly results for the last eight quarters.

(000's)	**Q1/21**	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19
Total net revenues	**$ 10,008**	$ 18,878	$ 13,449	$ 8,564	$ 9,905	$ 3,156	$ 1,617	$ 2,762
Net losses*	**(10,494)**	(26,966)	(17,799)	(27,917)	(12,744)	(57,721)	(17,255)	(13,987)
Adjusted EBITDA**	**(6,872)**	(6,104)	(6,783)	(9,095)	(8,335)	(10,488)	(11,056)	(8,209)
Average shares outstanding (000's)	**714,041**	640,923	631,950	627,822	625,242	613,683	594,592	592,208
Per share: Basic & diluted loss	**$ (0.01)**	$ (0.04)	$ (0.03)	$ (0.04)	$ (0.02)	$ (0.09)	$ (0.03)	$ (0.02)

*attributable to shareholders of the Company.

**Adjusted EBITDA is a Non-IFRS financial measure. Refer to the Non-IFRS Financial and Performance Measures section in this MD&A for definitions

Prior to Q4 2019, Auxly’s revenues were primarily derived from providing research services for customers who were conducting human clinical trials through its wholly owned subsidiary KGK. Commencing December 16, 2019, revenues also include the sale of Cannabis Products to recreational consumers in Canada, which resulted in the significant revenue increase during 2020.

The net loss for Q2 2020 increased despite recognition of revenues and a decline in SG&A expenses due to losses on investments and settlements, and recognition of impairment charges.

Adjusted EBITDA has seen some volatility primarily as a result of increasing SG&A due to acquisitions and expenditures in preparation for cannabis sales in December 2019, partially offset in 2020 with the achievement of the sale of Cannabis Products. Adjusted EBITDA continues to generally improve as cannabis revenues improve with both customer acceptance and expansion of product offerings.

The increases in average outstanding Shares reflect financing and acquisition related activities (issuance and exchange of Shares, exercise of warrants, options and conversion of convertible debentures).

TRANSACTIONS WITH RELATED PARTIES

Key management and director compensation

Auxly's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel include members of the Board of Directors and executive officers. Compensation of key management personnel may include short-term and long-term benefits, as applicable, including salaries, bonuses, stock options or post-employment benefits. Compensation provided to current and key management is as follows:

For the three months ended: (000's)	**March 31, 2021**	March 31, 2020
Short-term benefits	**$ 503**	$ 336
Long-term benefits	**83**	467
Total	**$ 586**	$ 803

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended: (000's)		**March 31, 2021**		March 31, 2020
Cash used in operating activities	**$**	**(18,708)**	$	(12,496)
Net change in investments		**(263)**		1,633
Net capital expenditures		**(1,208)**		(7,713)
Cash used in investing activities		**(1,471)**		(6,080)
Net cash from financing activities		**19,396**		(4,203)
Cash position at the beginning of the period		**21,214**		44,134
Cash position, end of period	**$**	**20,431**	$	21,355

Auxly's objectives when managing its liquidity and capital resources are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. Auxly considers its capital structure to include debt and shareholders' equity.

Auxly manages its capital structure by preparing rolling cash flow forecasts, monitoring the condition and value of assets available for use as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements.

Auxly is dependent on expected business growth, changes in the business environment and capital markets as its source of operating capital and may issue additional Shares or debt, acquire or dispose of assets to maintain or adjust its capital structure.

During the three months ended March 31, 2021, Auxly used $18.7 million on operating activities, primarily a result of $14.3 million in working capital including inventories partially offset by accounts payable and accrued liabilities. Net investing activities of $1.5 million primarily relate to the purchase of capital equipment at Kolab and contributions of $0.9 million to Sunens, net of long-term investments sold. Net financing activities were $19.4 million, primarily reflecting the February 2021 prospectus offering.

Auxly believes it has liquidity and capital resources to meet its short-term obligations for the next 12 months. The Company will consider the need for additional funding to further strengthen its balance sheet, or in anticipation of, or response to, changing business and industry conditions, and priorities for various projects in the coming year. Accordingly, management has the ability to defer certain capital expenditures and commitments, reduce overheads and consider a variety of options to finance the business including dilutive and non-dilutive offerings. As part of the financing considerations, Auxly considers which options will best optimize interest rates and fees, term length, security provided, covenants, dilution and the impact on future business plans.

Auxly's business is subject to risks and uncertainties that could significantly impair Auxly's ability to raise funds or to generate profits sufficient to meet future obligations, operational, or development needs. See "*COVID-19 Pandemic*" and "*Risk Factors*" in this MD&A for information on the risks and uncertainties that could have a negative effect on Auxly's liquidity.

OUTSTANDING SHARE DATA

Auxly's authorized share capital consists of an unlimited number of Shares. The following table quantifies the number of issued and outstanding Shares and exercisable securities.

	May 27 2021	March 31 2021	December 31 2020
Issued Shares	753,736,036	749,712,690	691,861,024
Escrowed shares	10,994,190	10,994,190	10,994,190
Outstanding shares	742,741,846	738,718,500	680,866,834
Exercisable securities			
Warrants	82,482,321	82,482,321	56,021,747
Convertible Debentures	188,089,377	188,089,377	188,089,377
Options	30,751,029	30,755,875	40,890,608

Shares issued in 2021 increased by approximately 61.9 million to 753.7 million (749.7 at March 31, 2021) primarily as a result of the issuance of equity of 54.4 million Shares pursuant to the February 2021 prospectus offering, 4.0 million Shares issued under the ATM program and 3.5 million related to the exercise of warrants.

In February 2021, in conjunction with the unit offering, 27.2 million warrants were issued at a price of $0.452 per unit along with 2.7 million broker warrants, partially offset by the exercise of 3.5 million warrants.

NON-GAAP FINANCIAL MEASURES

The interim condensed consolidated financial statements of Auxly are prepared in accordance with IFRS. Auxly's basis of presentation and significant accounting policies are summarized in detail in notes 2 and 3 of the interim condensed consolidated financial statements for the three months ended March 31, 2021 and notes 2 and 3 of the audited consolidated financial statements for the year ended December 31, 2020.

Auxly reports on certain non-GAAP measures that are used by management to evaluate the performance of the Company. As non-GAAP measures do not have standardized meanings prescribed by IFRS, securities regulations require that non-GAAP measures be clearly defined, qualified, and reconciled with their nearest IFRS measure. These measures do not have standardized meanings or interpretations and may not be comparable to similar terms and measures provided by other issuers.

Adjusted EBITDA used by Auxly and reported in this MD&A should not be construed as an alternative to net loss of the Company determined in accordance with IFRS as indicators of Auxly's performance.

Financial Measures

Adjusted EBITDA

This is a non-GAAP measure used in the cannabis industry and by the Company to assess operating performance removing the impacts and volatility of non-cash adjustments. The definition may differ by issuer. Adjusted EBITDA used by the Company is reconciled with net loss attributable to shareholders of the Company, an IFRS measure, in the section "Results of Operations" in this MD&A. The calculation of Adjusted EBITDA is comprised of the net loss of the Company added or subtracted as applicable as provided in the detailed reconciliation found in this MD&A. There may be many individual financial statement line item adjustments however, they all include, Interest expense and income, income taxes, depreciation and amortizations, fair value gains or losses, impairments or settlements, foreign exchange, changes in the share of joint venture investments, share based compensation, gains or losses on the sale or disposal of assets and any other unusual items. The Adjusted EBITDA reconciliation is as follows:

(000's)	**Q1/21**	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19
Net loss	**$ (10,500)**	$ (27,174)	$ (17,857)	$ (29,208)	$ (13,191)	$ (63,108)	$ (17,515)	$ (14,191)
Interest expense	**4,608**	3,824	3,664	3,356	2,199	4,170	2,520	1,897
Interest income	**(416)**	310	(381)	(345)	(61)	225	(858)	(2,019)
Income tax recovery	**(39)**	(24)	(90)	(567)	-	3,269	(11,524)	(1,464)
Depreciation and amortization	**2,533**	2,261	2,310	2,439	2,374	4,572	1,527	1,437
EBITDA	**(3,814)**	(20,803)	(12,354)	(24,325)	(8,679)	(50,872)	(25,850)	(14,340)
Impairment of Inventory	**230**	1,763	(312)	668	1,274	2,170	1,074	-
Unrealized fair value loss / (gain) on biological transformation	**(255)**	(215)	(172)	(201)	51	89	135	155
Realized fair value loss / (gain) on inventory	**(1)**	-	(2)	15	180	(90)	48	1
Share-based compensation	**206**	472	1,178	1,282	1,417	1,405	5,433	2,672
Fair value loss / (gain) for financial instruments accounted under FVTPL	**(116)**	(262)	34	4,521	115	274	5,778	1,812
Impairment of long-term assets	**-**	1,784	(144)	4,506	-	5,283	-	-
Impairment of intangible assets and goodwill	**-**	-	-	-	-	27,831	-	-
(Gain) / loss on settlement of assets and liabilities	**(4,069)**	6,186	3,309	2,387	(1,834)	2,262	1,413	250
Share of loss on investment in joint venture	**459**	4,412	1,214	996	785	691	838	372
Foreign exchange loss / (gain)	**488**	559	466	1,056	(1,644)	469	75	869
Adjusted EBITDA	**$ (6,872)**	$ (6,104)	$ (6,783)	$ (9,095)	$ (8,335)	$ (10,488)	$ (11,056)	$ (8,209)

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2021, the Company has entered into certain agreements which commit the Company to future funding following a mutually agreed upon event or events. Commitments have not been described where agreements are insufficiently advanced, unlikely to progress further or amounts are indeterminable.

The Company has funding commitments as follows:

As part of the $84 million in debt financing provided by a syndicate led by BMO towards the construction of the Sunens purpose-built greenhouse facility in Leamington, Ontario, the Company has guaranteed payments up to $33 million in the event of default. In addition, both joint venture parties have agreed to fund any cost overruns on the construction of the facility and maintain combined cash and available credit balances of at least $15 million;

Funding of $3.2 million from October 1, 2020 to December 31, 2021 has been committed to Kindred for brokerage services, whereby Kindred will market the Company's portfolio of brands across Canada. Further, during the period 2022 to 2024, the Company has committed to a fixed/variable structure whereby the fixed amount will be $3.6 million annually;

Annual payments of $0.3 million USD for five years to June 2025 to Natures Crops for the global exclusivity rights to Ahiflower® seed oil for use in Cannabis 2.0 Products;

Payments of $0.4 million USD in March and June in 2021, respectively, and a payment of $1.0 million USD in 2022 to Capsugel, as part of a multi-year licensing arrangement with Lonza; and

Payments of an aggregate of €1.2 million from April 1, 2021 to December 31, 2021 for cannabis equipment to expand the Company's pre-roll and dried flower capabilities.

The Company has commitments in respect of long-term debt obligations and leases relating to office spaces, equipment and land which will require payments as follows:

(000's)	Remaining 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Thereafter	Total
Lease obligations	$ 1,409	$ 1,399	$ 1,193	$ 721	$ 582	$ 9,215	**$ 14,519**
Long-term debt obligations	11,924	138,175	-	-	-	-	**150,099**
Total	**$ 13,333**	**$ 139,574**	**$ 1,193**	**$ 721**	**$ 582**	**$ 9,215**	**$ 164,618**

Long-term debt obligations include the Imperial Brands convertible debenture which presently reflects $11.1 million in interest owing December 31, 2021 and $126.5 million as principal and interest owing upon maturity on September 25, 2022. As previously announced by the Company, subject to shareholder approval, the term of the debenture may be extended to September 25, 2024 and annually, interest payable may also be converted to Shares or capitalized and paid at maturity.

The Company, its subsidiaries and joint ventures are involved in litigation matters arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to litigation to be material to the consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

Auxly makes estimates about the future that affect the reported amount of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Areas requiring estimates and judgements are as follows:

Impairment assessment of indefinite life intangible assets, intangible assets not available for use and goodwill

The carrying value of goodwill, indefinite life intangible assets and intangible assets not yet in use are subject to annual impairment assessments. Auxly's impairment tests for goodwill and intangible assets are based on the greater of value in use calculations that use a discounted cash flow model over a five-year period and estimated fair value less cost to sell. The value-in-use calculations employ the following key assumptions: future cash flows, growth projections including economic risk assumptions and estimates of achieving key operating metrics. The cash flows are derived from Auxly's budget for the future and do not include restructuring activities that Auxly has not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The estimated fair value less cost to sell is based on assessment of comparable company multiples and precedent transactions.

Business Combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent considerations have all been classified as equity which is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Auxly measures all the assets acquired and liabilities assumed at their acquisition-date fair values.

Valuation of the debt obligation receivable in product equivalents

In determining the valuation of the fair value of the debt obligation receivable in product equivalents, management estimates were used such as an appropriate discount rate, estimate of future selling prices and estimate of future production abilities.

Inputs when using Black-Scholes valuation model

The estimates used in determining the stock option and warrant fair values, utilizes estimates made by management in determining the appropriate input variables in the Black-Scholes valuation model. Inputs are subject to estimates include volatility, forfeiture rates, estimated lives and market rates.

Discount rates

The discount rates used to calculate the purchase price allocation, impairment analysis, net present value of notes receivable, the convertible debentures and the notes payable are based on management's best estimates of an approximate industry peer group weighted average cost of capital and management's best estimate of Auxly's risk levels. Changes in the general economic environment could result in significant changes to this estimate.

Valuation of long-term investments in private companies

In determining the valuation of long-term investments in companies not publicly traded (IFRS 13 level 3 security), there are unobservable inputs used to measure fair value. Estimates were used for unobservable inputs using the best information available such as public company market comparables and recent public company transactions.

Convertible instruments

Convertible debentures are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible debentures components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based upon a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

CHANGES IN ACCOUNTING POLICIES

Amendments to IAS 1 – Presentation of financial statements: classification of liabilities as current or non-current

In January 2020, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. The Company does not intend to early adopt these amendments and is currently assessing the impact of these amendment on its consolidated financial statements.

Amendments to IFRS 9

Amendments to IFRS 9 As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IAS 37: Onerous Contracts and the Cost of Fulfilling a Contract

The amendment specifies that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company’s consolidated financial statements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Auxly’s financial instruments include cash and cash equivalents, short-term investments, note and other receivables, long-term investments, debt obligation receivable in product equivalent, accounts payable and accrued liabilities, short and long-term loans, convertible debenture and interest payable on convertible debt. Cash and cash equivalents and short-term investments are exposed to credit risk and Auxly reduces its credit risks by placing these instruments with institutions of high credit worthiness. Note receivables and debt obligation receivable in product equivalent relates to outstanding loans and Auxly mitigates the credit risk by entering into agreements and reviewing its exposure to credit risk on a regular basis. Auxly is exposed to liquidity risk with respect to its trade and other payables and Auxly manages liquidity risk by maintaining sufficient cash balances for settlement of financial liabilities on their due dates.

RISK FACTORS

Auxly’s business and structure are subject to a number of risks and uncertainties which could cause future results to differ materially from those described herein, including without limitation, the risk factors discussed in Auxly’s Annual Information Form dated April 23, 2021, which risk factors are incorporated by reference into this document and should be reviewed by all readers. These documents as well as additional information regarding Auxly can be found on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

This MD&A and the documents incorporated by reference herein contain certain statements which contain "forward-looking information" within the meaning of Canadian securities legislation (each a "forward-looking statement"). No assurance can be given that the expectations in any forward-looking statement will prove to be correct and, as such, the forward-looking statements included in this MD&A should not be unduly relied upon. Forward-looking information is by its nature prospective and requires Auxly to make certain assumptions and is subject to inherent risks and uncertainties. All statements, other than statements of historical fact included in this MD&A, including information that address activities, events or developments that the Company expects or anticipates will or may occur in the future, are forward-looking statements. The use of any of the words "anticipates", "plans", "contemplates", "continues", "estimates", "expects", "intends", "proposes", "might", "may", "will", "shall", "projects", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential", "capable", "budget" and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this MD&A may include, but is not limited to, statements pertaining to:

- the competitive and business strategies of the Company;
- the intention to grow the business, operations and existing and potential activities of the Company;

- the sufficiency of the Company's resources to fund continued operations;
- the Company's expectations regarding its future sales;
- the Company's response to the COVID-19 pandemic;
- the impact of the COVID-19 pandemic on the Company's current and future operations;
- the success, and integration of operations, of the entities the Company acquires and the Company's collaborations;
- the ongoing construction and expansion of the Company's facilities, including Dosecann, Sunens, Kolab, Robinsons and Robinsons OG, and its partners' facilities and the timing thereof;
- inventory and production capacity, including discussions of plans or potential for expansion of capacity at existing or new facilities;
- the market for the Company's current and proposed product offerings, as well as the Company's ability to capture market share;
- the distribution methods expected to be used by the Company to deliver its products;
- the benefits and applications of the Company's product offering and expected sales mix thereof;
- development of affiliated brands, product diversification and future corporate development;
- the competitive landscape in which the Company operates and the Company's market expertise;
- expectations regarding the Company's ability to raise additional financing to further the Company's investment in the business;
- the applicable legislation, regulations and licensing related and any amendments thereof related to the cultivation, production, processing, distribution and sale of cannabis products by the Company's subsidiaries and other business interests;
- the ability of the Company, its subsidiaries and its cultivation partners to cultivate, produce, process, distribute or sell cannabis and cannabis products;
- expectations regarding the Company's licences, including in respect of the grant of licences under the Cannabis Act, the Cannabis Regulations and the Industrial Hemp Regulations enacted pursuant to the Cannabis Act, and the permitted activities thereunder;
- the fluctuations in the price of Shares and the market for the Shares;
- the ability of the Company to continue as a going concern;
- future liquidity and financial position;
- the Company's growth strategy, targets for future growth and projections of the results of such growth;
- the expectation and timing of future revenues;
- expectations regarding the Company's expansion of operations and investment into foreign jurisdictions;

- expectations regarding the Company’s ability to find strategic alternatives with respect to Inverell;
- the ability of the Company to generate cash flow from operations and from financing activities; and
- Auxly's competitive position.

The forward-looking statements in this MD&A are based on information currently available and what management believes are reasonable assumptions. Forward-looking statements speak only to such assumptions as of the date of this MD&A. In addition, this MD&A may contain forward-looking statements attributed to third party industry sources, the accuracy of which has not been verified by Auxly. The purpose of forward-looking information is to provide the reader with a description of management's expectations, and such forward-looking information may not be appropriate for any other purpose.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors, that may cause the actual results, performance or achievements of the Company to be materially different from those expressed or implied by the forward-looking statements. A number of factors could cause actual results to differ materially from a conclusion, forecast or projection contained in the forward-looking statements in this MD&A including, but not limited to, whether:

- current and future management will abide by the business objectives and strategies outlined herein;
- the Company will retain and supplement its board of directors and management, or otherwise engage consultants and advisors, having knowledge of the industries in which Auxly participates;
- the Company will be able to continue as a going concern, will have sufficient working capital and be able to secure adequate financing required in the future on acceptable terms to develop its business and continue operations;
- the Company will continue to attract, develop, motivate and retain highly qualified and skilled employees;
- no adverse changes will be made to the regulatory framework governing cannabis, taxes and all other applicable matters in the jurisdictions in which the Company conducts business and any other jurisdiction in which the Company may conduct business in the future;
- the Company will be able to generate cash flow from operations, including, where applicable, the cultivation, production, processing, distribution and sale of cannabis and derivative cannabis products;
- the Company will be able to execute on its business strategy;
- the Company’s subsidiaries will be able to meet the governmental and regulatory requirements necessary to obtain and/or maintain their licences;
- general economic, financial market, regulatory and political conditions in which Auxly operates will remain the same;
- the Company will be able to compete in the cannabis industry;
- there are not materially more closures or lockdowns related to the COVID-19 pandemic;

- the Company will be able to manage anticipated and unanticipated costs;
- the Company will be able to reach an agreement with Sunens' lenders on terms acceptable to the Company and in a timely manner;
- Auxly will be able to maintain internal controls over financial reporting and disclosure, controls and procedures;
- cannabis prices will not decline materially;
- the Company will be able to continue to achieve its target SG&A expenses;
- the Company will further expand production capacity and introduce new product formats once the second floor of its Dosecann facility is fully operational;
- the Company will be able to successfully launch and commercialize new brands, create new product formats and enter into new markets; and
- future Company products will be accepted by consumers and provincial purchasers;

Although management believes that the expectations represented in such forward-looking statements are reasonable, there is no assurance that such expectations will prove to have been correct. Auxly cannot guarantee future results, performance or achievements.

Readers are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amount of assets, liabilities, revenues and expenses. These estimates may impact the financial performance of Auxly when further information becomes available.